MEMORANDUM

GOE Workshop
Agenda Item No. 2(A)

TO: Honorable Chairperson Barbara Carey-Shuler, Ed.D. and Members, Board of County Commissioners

DATE: July 28, 2004

FROM: George M. Burgess
County Manager

SUBJECT: Strategy for Employee Health Benefits

Miami-Dade County, like most employers nationally, continues to face significant annual increases in the costs of our health insurance programs, which becomes an increasing burden on the County and our employees. Members of the Board, employees and retirees have expressed their concerns about the future outlook. I instructed staff to work with our benefits consultant, Deloitte, to evaluate the County's current insurance benefits program and identify opportunities available to the County to impact costs and premiums.

This is a long term problem which necessitates careful planning and strategizing on our part. It is also a very personal and sensitive issue with the potential to significantly impact all of us. Our goal is to insure that we preserve benefits while managing costs more effectively. Therefore, I thought it important to provide you with the details of our research for your consideration. A copy of the presentation staff and Deloitte will deliver at the meeting is attached.

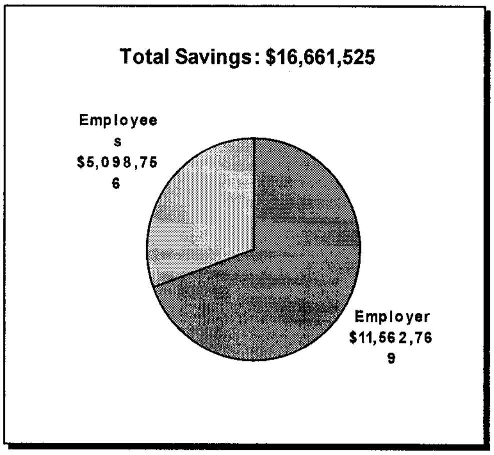
There are a number of strategies for controlling health benefit costs, including: 1) benefit design changes such as coinsurance levels, deductibles and co-payments; 2) contribution strategy, how much of the premium would be paid by the employee; 3) consolidation of plans offered; 4) competitive solicitations, and 5) funding alternatives. Many employers have resorted to Options 1 or 2, or some combination of these. Neither of these solutions actually resolve the cost dilemma since they are primarily cost shifting techniques. That is, the County may recognize savings from these approaches, while the cost burden would be shifted to the employee. Clearly this is not our intention. Options 3 and 4, however, are likely to reduce costs to the County and to our employees and warrant serious consideration in developing a long term strategy for the direction of our program.

Staff has determined that Option 5, modifying the funding mechanism with our current HMO's from fully insured to self insured status, provides the best strategy for 2005. The strategy is designed to assist the County in minimizing large cost increases and keeping premiums affordable, without sacrificing quality for our employees. Staff and Deloitte will be *negotiating a* change from fully insured to self insured in the 2005 plan renewal negotiations with the incumbent Health Maintenance Organizations (HMO's). *Assuming that those negotiations are successful, the County could achieve a self-insured HMO program as early as 2005.* Deloitte has projected this change in funding philosophy alone, with <u>no change in plan design</u> could result in savings of approximately $20,000,000 to the County, the Public Health Trust and, most importantly, our employees. This change would be transparent to our employees and have no impact on their access to medical care, or their current level of benefits.

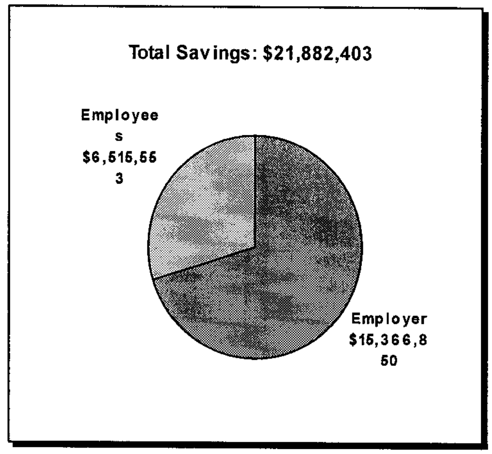
Miami-Dade has self-insured our Point of Service program since its inception in 1995. Prior to that, the Preferred Provider Organization (PPO) program was also self-insured for many years, and before that our indemnity program was self-insured. Based on our history of experience with self-insuring, we are confident that we can implement a self-insured HMO program successfully today. The advantages to self-insuring the HMO program include the reduction of excess administrative charges, risk charges and operating profit which exist in fully insured HMO's. The following charts illustrate the projected savings that would have accrued to the County, the Public Health Trust and our employees in 2004, had the HMO program been self-insured. For employees paying dependent premiums, HMO premiums established for 2004 could have been up to 13% lower.

Projected Savings in 2004 if HMOs Were Self-Insured*

MDC Employees Only



MDC + PHT Employees

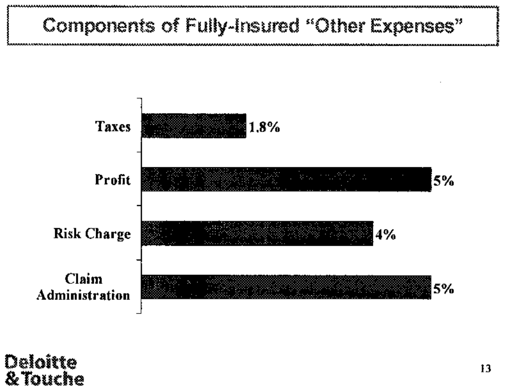


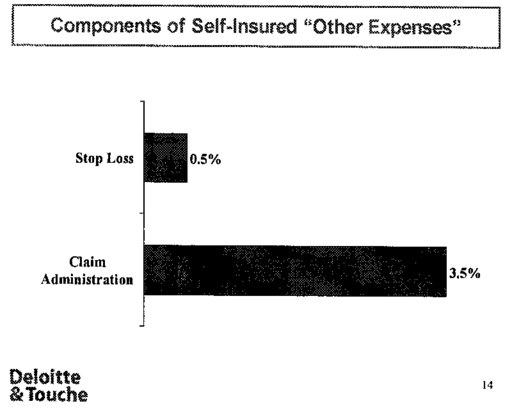
* Assumes 17% non-claims expense factor for current fully-insured HMO's.

There are many reasons why self-insuring our HMO health insurance plans is beneficial:

- Savings to the County and our employees which will result in better premiums
- POS participants will benefit as well since self-funding all programs will allow for the consolidation of risks
- Improved cash flow to the County (the money remains in our bank account until needed to pay claims)
- Control of plan reserves
- Elimination of premium tax
- Control of plan design
- If we have a "good year", the money remains in our account, as opposed to the HMO's

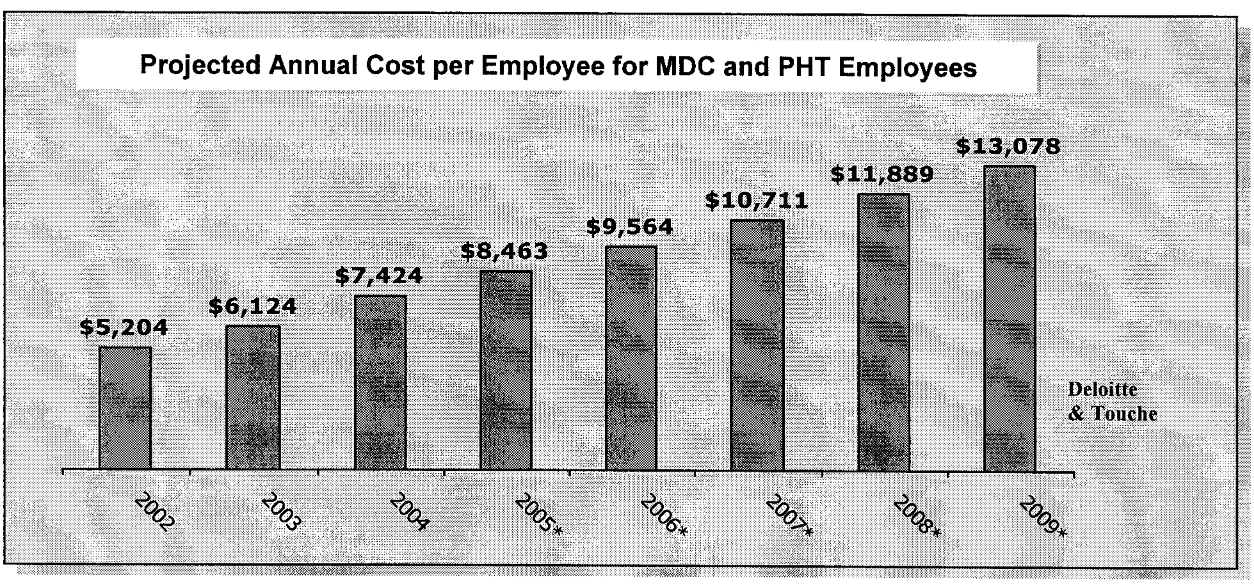
The chart below illustrates the components of a fully-insured program vs. a self-insured program





There are those who would question the financial risk associated with moving from a fully-insured to self-insured status. Employers must ensure that a self-insured program is adequately funded to cover the claims costs. When an employer has limited plan experience, or a generally unstable program, it may cause the employer to inappropriately project and fund plan costs. The employer runs the risk of not having enough money "set aside" to cover costs. However, given Miami-Dade County's long term experience with HMO's, we have a significant and sufficient amount of data to accurately project and fund for anticipated costs. The County has self-funded a large portion of its benefits program for decades and is in a financial position to self-fund the HMO program as well. The inclusion of stop loss insurance coverage will protect the County from unlimited financial exposure.

There is a sense of urgency to address the significant cost increases which employers have experienced in recent years, and which are predicted to continue for at least the next five years as depicted in the chart below.



* Projected increases of 14% for 2005, 13% for 2006, 12% for 2007, 11% for 2008 and 10% for 2009

Many of the factors which are driving the large cost increases are outside our control. These include medical cost inflation, plan utilization, increased longevity, increased sophistication of medical technology, and substantial increases in medical malpractice premiums, to name a few. Many employers plan to shift some of the increase to employees with some combination of a higher share of premiums, deductibles, or co-pays, and benefit design changes. Our approach does not utilize any cost shifting. Instead, we are seeking to provide the same plan design, and anticipate more favorable premiums to our employees through the change in the funding philosophy of the program.

It is our sincere hope that the incumbent vendors will negotiate with us to move to a self-insured concept in a fair and favorable manner. The outcome will be savings to the County, and to our employees, with no disruption in the relationships that our employees have developed with their providers and their plan. Benefits will be maintained at the current level.

We believe that the self-insured strategy for our HMO program provides the best near term opportunity for the County to preserve benefits for our employees while managing costs more effectively. However, we also feel that the magnitude of this problem and the projected future outlook for health insurance costs necessitates a more comprehensive and long term strategy for the future of the program. Staff is prepared to respond to any questions you may have.

Corinne Brody

Assistant County Manager

MIAMI-DADE COUNTY

Employee Health Benefits

A Strategy to Preserve Benefits by Managing Costs More Effectively

Deloitte.

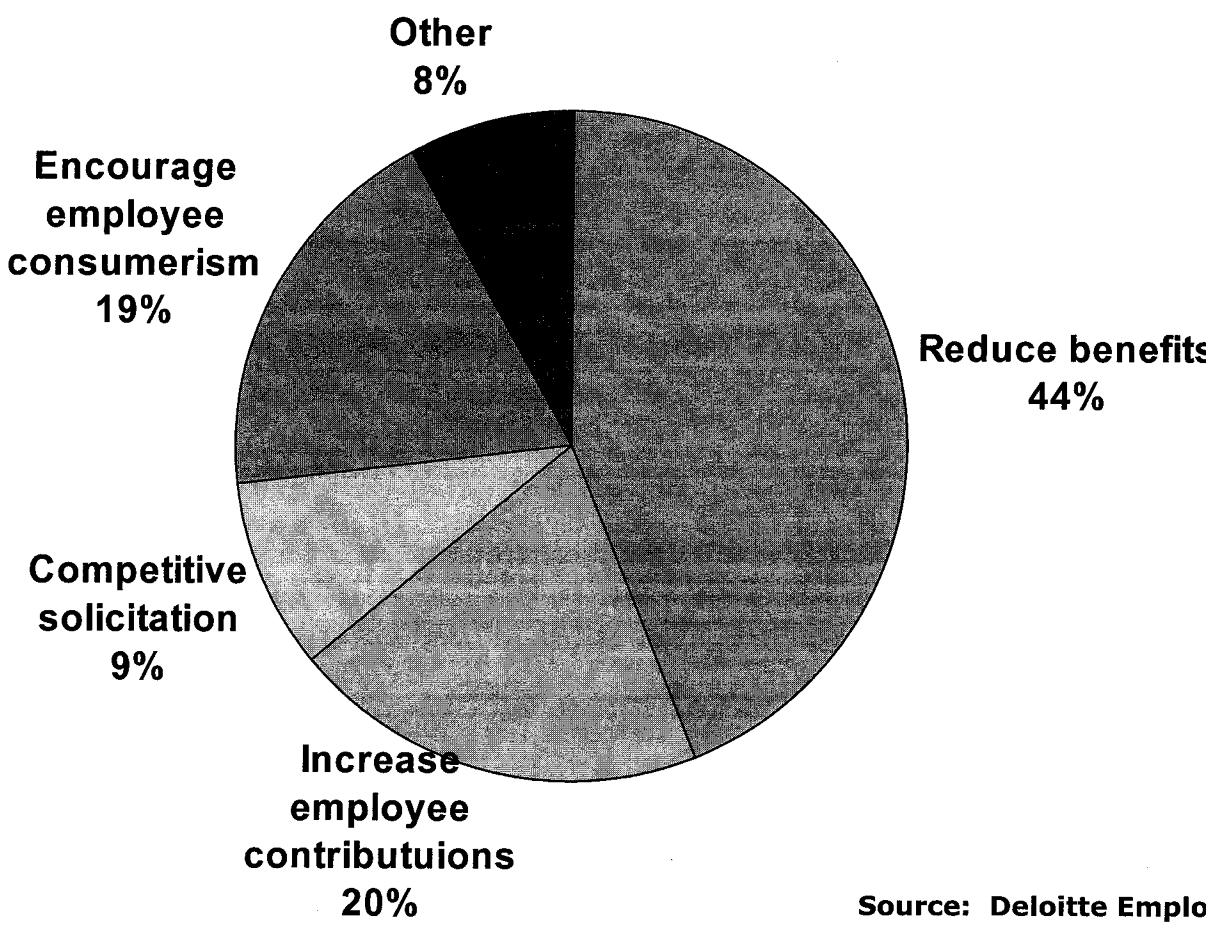
Outline

- Cost management opportunities
- Current situation
- Near-term actions

Cost management opportunities for Miami-Dade County…

- Rising health care costs forcing action by employers.
- Most common cost management tools:
  - Reduce benefits (increase co-payments)
  - Increase employee payroll deductions
  - Plan consolidation
  - Competitive solicitation
  - Alter funding approach
- Historically, the County has provided generous benefits at no or little cost to employees

"What is your primary strategy to control health benefits costs?"



Source: Deloitte Employer Health Care Strategies Survey 2003

Deloitte.

MIAMI-DADE COUNTY

Options for consideration…

	Reduce Plan Benefits	Increase Employee Contributions	Plan Consolidation	Competitive Solicitation	Alternative funding approaches
Reduce County's expenses?	Yes	Yes	Yes	Yes	Yes
Reduce overall expense?	Yes	No	Yes	Yes	Yes
Visible to employees?	Yes	Yes	Yes	Yes	No
Adverse effects on employees?	Most	All	Some	Some	None

Funding alternatives…

Fully-insured arrangements

- Carrier assumes all financial risk
- Premiums are determined in advance and are collected for 12 months – regardless of plan experience
- Non-claims expense typically 15-17% of total cost

Self-insured arrangements

- County assumes most financial risk
- Claims costs are paid as they are actually incurred – not as they are projected
- Non-claims expense typically 4-5% of total cost

Components of non-claims expense…

- **Fully-insured**
  - Administrative costs
  - Risk charges
  - Premium tax (1.75%, or $3 million in 2004)
  - Profit as a percentage of total premium

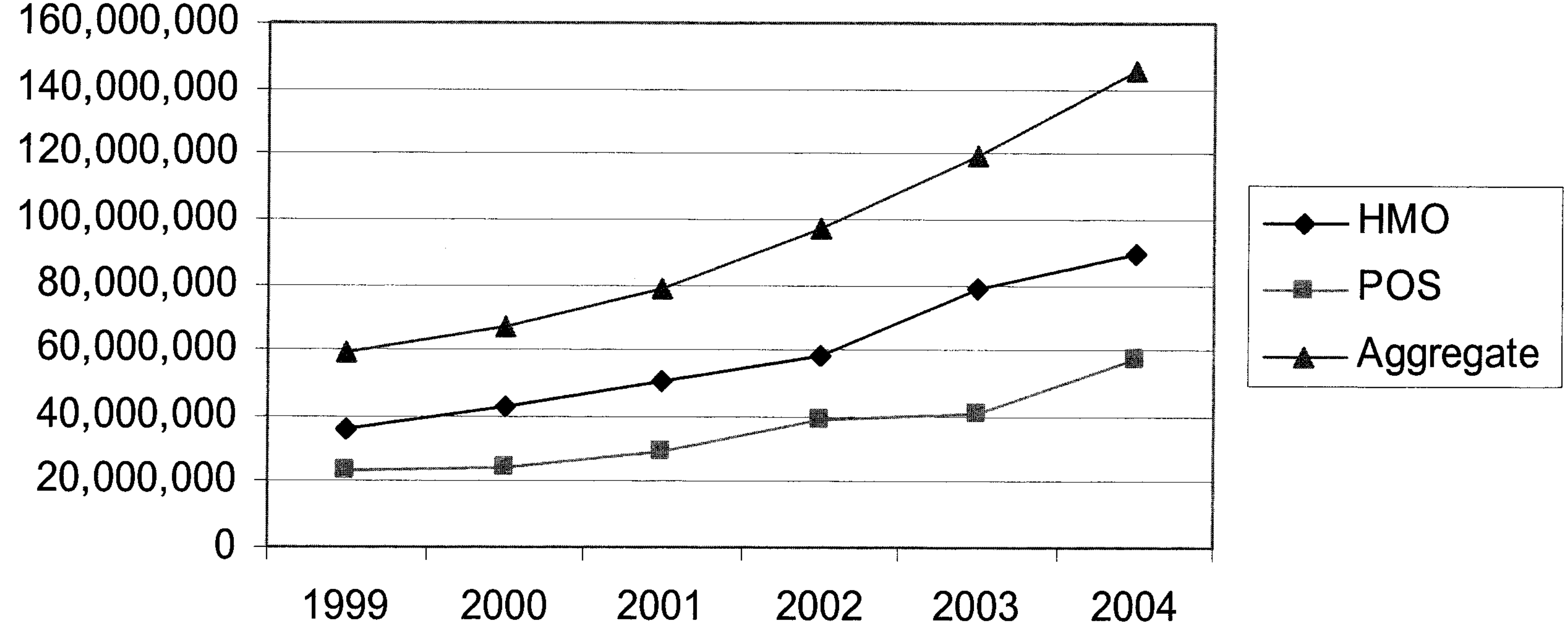
- **Self-insured**
  - Administrative costs
  - Reduced risk charges
  - Profit as a percentage of administrative cost only

Stop Loss Insurance for self-insured employers...

- **Individual Stop Loss**
  - Limits exposure to catastrophic individual claims
  - Caps exposure at, e.g. $300,000, per claimant
  - Insurance carrier would assume all claim costs in excess of that $300,000
  - The County is self-insured for this coverage in the POS plan

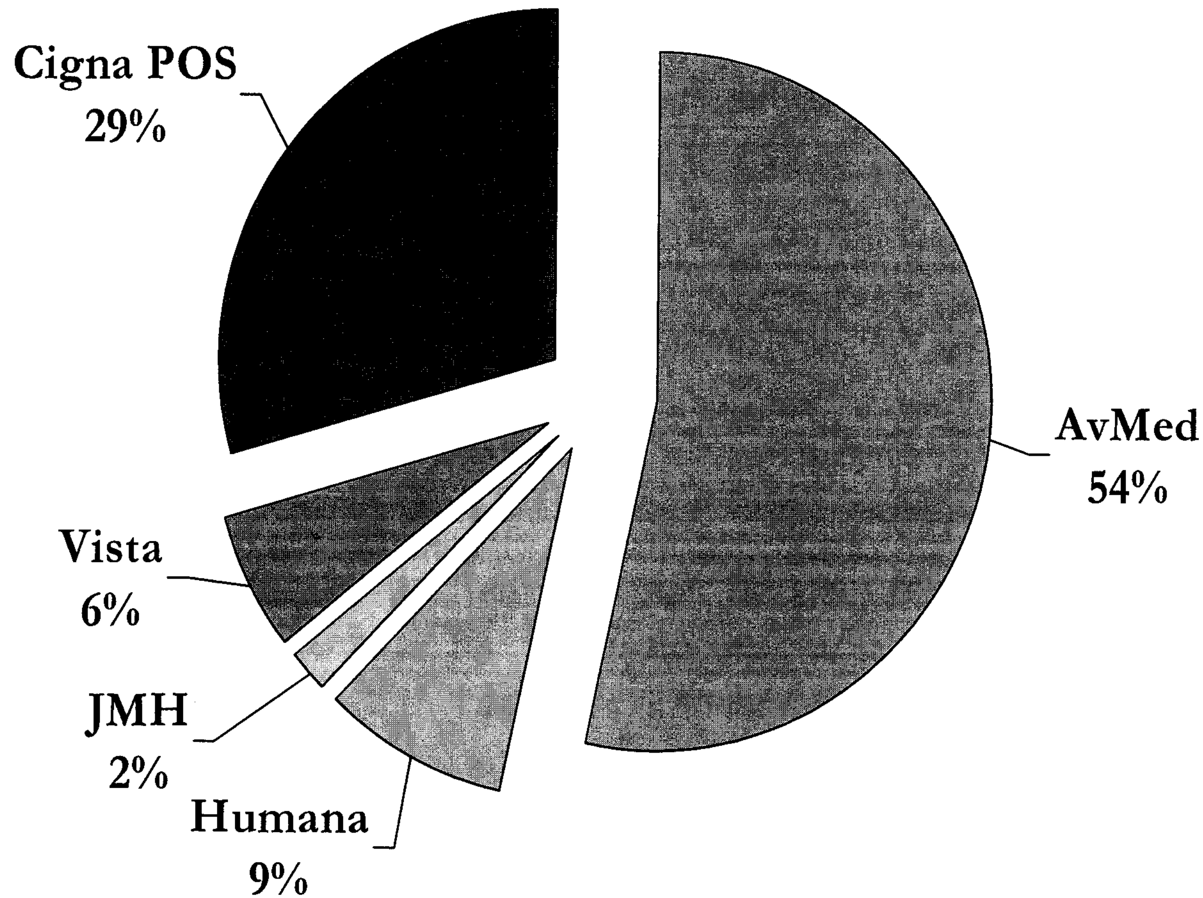
- **Aggregate Stop Loss**
  - Limits exposure to catastrophic aggregate claims
  - Caps exposure at, e.g., 120% of expected aggregate claim costs
  - Insurance carrier would assume all claim costs in excess of that 120%
  - County purchases aggregate coverage from Cigna in the POS plan

In the past 5 years, the County's spending for health benefits has more than doubled…

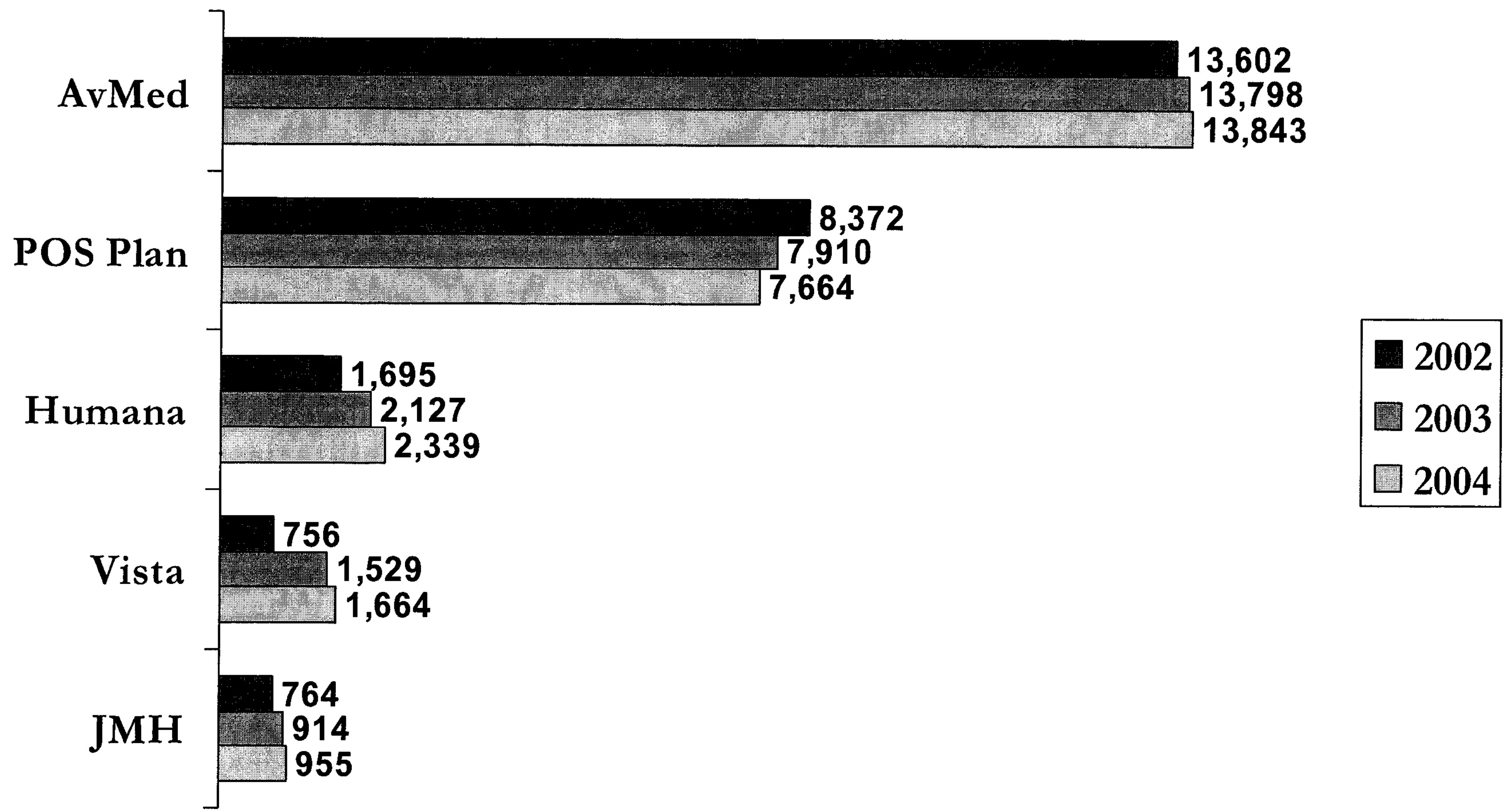


Note: County cost only; excludes employee contributions and PHT liabilities

Nearly three quarters of County employees are enrolled in an HMO plan in 2004…



Enrollment by plan has not changed substantially over the past 3 years…



Little difference in coverage offered by each plan…

	Cigna POS*	AvMed HMO	Humana HMO	JMH HMO	Vista HMO
Office Visit	$10	$10	$10	$10	$10
Inpatient Care	Free	Free	Free	Free	Free
Prescrip-tion Drugs	$5/$10 $15	$10/$20 $30	$7/$15 $25	$7/$20 $35	$10/$20 $30
Mail Order Drugs	$10/$20 $30	$20/$40 $60	$21/$45 $75	$14/$40 $70	$20/$40 **No non-formulary**
Durable Medical Equipment	Free	**$25 per episode; $500 annual max.**	Free	**$25 per item; $500 annual max.**	Free

* In-network coverage

Summary of current situation as we see it…

- The financial condition of the Cigna POS is of serious concern – as costs increase, good risks (healthier people and kids) move to HMOs
- HMO premiums are, for the most part, higher than the actual claims experience warrants due to high non-claims expense
- Significant savings can be achieved through the use of alternative HMO funding arrangements

Potential 2005 savings using incumbent vendors' initial self-insured administrative fees and stop loss premiums

	Current 2004 Fully Insured	2005 Initial Renewal Offer Fully Insured	2005 Initial Renewal Offer Self-Insured	2005 Difference between Initial Fully Insured and Initial Self-Insured Offers
All HMOs	$180.2	$197.7	$188.0	($9.7)

Note: Two HMOs have not yet submitted stop-loss premium quotes.
Costs include employer and employee contributions and the Public Health Trust.

Initial self-insured quotes from incumbent vendors…

- Initially proposed administrative fees vary widely
- Stop-loss insurance premiums also vary and are incomplete or missing
- Negotiations are ongoing

Summary…

- Self-insuring HMO plans can achieve significant savings to the County and its employees without an adverse impact on employees
- Self-insuring all health benefits plans would lower costs for HMO and POS participants
- By self-insuring current HMO plans, no employee disruption would result